

Ringgold County Hospital
Mount Ayr, Iowa

Financial Statements
June 30, 2011 and 2010

Together with Independent Auditor's Report

Ringgold County Hospital

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Ringgold County Hospital

Officials

June 30, 2011

Name	Title	Term Expires
Board of Trustees, Executive Committee:		
Kathi Braby	Chairperson	2016
Fred Wilson	Vice-Chairperson	2016
Bill Armstrong	Secretary/Treasurer	2014
Board of Trustees, Members:		
Greg Jobe	Member	2014
Jim Pederson	Member	2012
Malcom Eighmy	Member	2012
Karleen Stephens	Member	2016
Hospital Officials:		
Gordon W. Winkler	Administrator/Chief Executive Officer	
Teresa Roberts	Chief Financial Officer	

Independent Auditor's Report

To the Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa:

We have audited the accompanying basic financial statements of Ringgold County Hospital (Hospital) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital for the year ended June 30, 2010, were audited by other auditors whose report, dated October 14, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2011, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 and page 25 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole that collectively comprise the Hospital's basic financial statements. Other supplementary information, included in Exhibits 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SEIM JOHNSON, LLP.

Omaha, Nebraska,
October 17, 2011.

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

Introduction

This discussion and analysis of Ringgold County Hospital's (the "Hospital") financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2011 and 2010. This discussion and analysis should be read in conjunction with the accompanying financial statements, which begin on page 8.

Financial Highlights

- Cash and cash equivalents and short-term investments increased in 2011 by \$173,997 or 40% and increased in 2010 by \$66,686 or 10%, respectively.
- The Hospital's net assets decreased in 2011 by \$947,375 or 41% and \$1,367,918 or 37% in 2010.
- The Hospital reported operating losses in 2011 of \$1,980,512 and \$2,506,214 in 2010. The operating loss in 2011 decreased by \$525,702 or 21% from the operating loss reported in 2010. The operating loss in 2010 increased by \$1,145,527 or 84% from the operating loss reported in 2009. A significant component of the operating loss in 2010 was the increase of depreciation expense of \$700,328 due to the reconsideration of the estimated useful lives on the old hospital facility capital assets due to the construction and operation of the new hospital facility.
- In October 2010, the Hospital issued \$8,700,000 Series 2010 Hospital Revenue Bonds as permanent financing to replace the Series 2008C Bond Anticipation Notes previously issued to fund the construction of a replacement Critical Access Hospital in October 2009. The issuance was done to complete the overall financing plan for the construction project.

Using This Annual Report

The Hospital's financial statements consist of three statements - a balance sheet; a statement of revenue, expenses, and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenue, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets—the difference between assets and liabilities, as one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents balance during the reporting period.

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets decreased by \$947,375 or 41% in 2011 over 2010 as shown in Table 1.

Table 1: Condensed Assets, Liabilities, and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Cash and cash equivalents	\$ 611,495	437,498	339,880
Short-term investments	270,000	270,000	300,932
Assets limited as to use or restricted	411,227	287,562	2,872,996
Patient accounts receivable, net	1,540,775	1,432,249	1,370,692
Other current assets	1,501,311	1,211,258	1,226,964
Capital assets, net	20,790,868	22,439,890	15,544,763
Other non current assets	<u>2,065,758</u>	<u>2,094,427</u>	<u>10,838,737</u>
Total assets	<u>\$ 27,191,434</u>	<u>28,172,884</u>	<u>32,494,964</u>
Liabilities:			
Long-term debt	\$ 22,857,766	23,116,652	23,198,621
Other current and non-current liabilities	<u>2,978,671</u>	<u>2,753,860</u>	<u>5,626,053</u>
Total liabilities	<u>\$ 25,836,437</u>	<u>25,870,512</u>	<u>28,824,674</u>
Net Assets:			
Net assets	<u>1,354,997</u>	<u>2,302,372</u>	<u>3,670,290</u>
Total liabilities and net assets	<u>\$ 27,191,434</u>	<u>28,172,884</u>	<u>32,494,964</u>

A significant component of the change in the Hospitals assets is the decrease in capital assets, net. Capital assets, net decreased in 2011 due to the Hospital purchasing \$59,118 in capital assets and recording \$1,712,746 of depreciation expense during the fiscal year. In addition, the Hospital issued \$8,700,000 in Series 2010 Revenue Bonds to replace the Series 2009 Bond Anticipation Notes previously issued to fund the construction of a replacement Critical Access Hospital in October 2010. The interest rate on the 2010 bonds is 3.75% and the USDA carries the bonds.

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets decreased by \$947,375 or 41%, as shown in Table 2. This decrease is made up of several different components discussed below.

Table 2: Condensed Operating Results and Changes in Net Assets

	2011	2010	2009
Operating revenue:			
Net patient service revenue	\$ 13,976,877	13,000,940	11,564,408
Provision for bad debt	(538,770)	(575,405)	(426,081)
Other operating revenue	406,591	245,911	266,460
Total operating revenue	13,844,698	12,671,446	11,404,787
Operating expenses:			
Salaries and employee benefits	7,282,895	7,367,912	6,864,016
Professional fees and purchased services	2,393,167	2,522,779	2,141,679
Supplies and other	2,238,979	2,104,344	1,623,828
Other operating expenses	850,981	823,294	701,627
Depreciation and amortization	1,778,336	1,800,879	1,417,294
Interest expense	1,280,852	558,452	17,030
Total operating expenses	15,825,210	15,177,660	12,765,474
Operating loss	(1,980,512)	(2,506,214)	(1,360,687)
Non-operating revenue:			
County tax revenues	951,863	953,097	817,740
Investment income	39,362	133,231	65,364
Other non-operating revenue	41,912	51,968	24,049
Total non-operating revenue, net	1,033,137	1,138,296	907,153
Decrease in net assets	(947,375)	(1,367,918)	(453,534)
Net assets, beginning of year	2,302,372	3,670,290	4,123,824
Net assets, end of year	\$ 1,354,997	2,302,372	3,670,290

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

Operating Losses

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In each of the past 2 years, the Hospital has reported an operating loss. Losses in 2011 decreased by \$525,702 or 21% lower than the loss reported in 2010. Operating losses in 2010 increased \$1,145,527 or 84%.

Increases in volumes in outpatient diagnostic testing and a price increase of 5% resulted in an increase in net patient service revenue of \$975,937 or 8% over 2010, as compared to an increase of \$1,436,532, or 12% over 2009.

Total operating revenue increased in 2011 \$1,173,252 or 9% and \$1,266,659 or 11% in 2010. Property Insurance proceeds due to hail and water damage at the old hospital building of \$219,000 are included in other operating revenue in 2011.

The Hospital added Orthopedic and Cardiology services during 2009. These services continued to grow during 2011, allowing the Hospital to broaden the array of services provided to its patient base and increase patient revenues. A change in vascular services availability during 2011 enhanced the cardiology offering and increased outpatient diagnostic testing utilization.

The single largest component of the increase in operating expenses during 2011 was due to the additional interest expense recognized on the bonds for the new hospital facility. Interest expense increased in 2011 \$722,400 or 129% over 2010. The growth in Orthopedic services also increased supply costs as orthopedic joints and implants are costly. Salaries and employee benefits increased slightly in 2011 and professional fees and purchased services decreased slightly.

Non-operating Revenue and Expenses

Non-operating revenues and expenses consist primarily of county taxes and investment income. County taxes decreased \$1,234 and investment income decreased \$93,869 in 2011. The significant change in investment income is due to no longer having construction funds earning interest for the Hospital. Also, Debt Service Reserve funds for Series 2008A & 2008B bonds are invested in U.S. government obligations and the volatile market in 2011 resulted in net unrealized losses of \$2,992.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and non-operating revenue and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had \$20,790,868 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Hospital had new capital asset additions of \$59,118 for equipment.

At the end of 2010, the Hospital had \$22,439,890 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2010, the Hospital had new capital asset additions of \$8,639,789, of which \$6,622,046 was associated with the replacement hospital facility project.

Debt

At June 30, 2011 and 2010, the Hospital had \$22,857,766 and \$23,116,652, respectively, in long-term debt outstanding. The Hospital issued \$8,700,000 Series 2010 Hospital Revenue Bonds to the USDA during October 2010 as permanent financing to replace the Series 2009 Bond Anticipation Notes previously issued to fund the construction project. Series 2010 bonds are at 3.75%. Monthly principal and interest payments of \$35,061 are due commencing November 1, 2010 through October 1, 2050.

Ringgold County Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

Other Economic Factors

The single largest economic factor affecting the Hospital is the aging, declining population of its service area. As the remaining population ages and median income decreases, the Hospital treats a larger percentage of Medicare and Medicaid patients, thus, increasing the Hospital's reliance on those programs' payment systems for a majority of its reimbursement.

Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including rising insurance rates and increasing out-of-pocket costs, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of federal regulations on the Medicare program may have an adverse effect on cash flows related to the Medicare program.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by telephoning 641.464.3226.

Ringgold County Hospital

Balance Sheets June 30, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash and cash equivalents	\$ 611,495	437,498
Short-term investments	270,000	270,000
Assets limited as to use or restricted, current portion	411,227	287,562
Receivables -		
Patients, net of estimated uncollectible accounts		
of \$900,000 in 2011 and \$772,000 in 2010	1,540,775	1,432,249
County taxes receivable	1,042,583	978,246
Other	39	235
Inventories	174,798	165,758
Prepaid expenses	79,398	67,019
Estimated third-party payor settlements	204,493	--
Total current assets	<u>4,334,808</u>	<u>3,638,567</u>
Assets limited as to use or restricted	<u>1,078,678</u>	<u>1,185,465</u>
Capital assets, net	<u>20,790,868</u>	<u>22,439,890</u>
Other assets:		
Deferred financing costs, net	970,791	896,560
Assets managed by the South Central Iowa Community Foundation	16,289	12,402
Total other assets	<u>987,080</u>	<u>908,962</u>
Total assets	<u>\$ 27,191,434</u>	<u>28,172,884</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 258,552	95,500
Accounts payable	530,958	426,264
Accrued salaries, vacation and benefits payable	877,022	978,047
Accrued interest on long-term debt	281,926	287,562
Estimated third-party payor settlements	--	4,500
Deferred revenue for property taxes	1,030,213	961,987
Total current liabilities	<u>2,978,671</u>	<u>2,753,860</u>
Long-term debt, net of current portion	<u>22,857,766</u>	<u>23,116,652</u>
Total liabilities	<u>25,836,437</u>	<u>25,870,512</u>
Net assets:		
Invested in capital assets, net of related debt	(371,781)	1,224,699
Restricted	129,301	32,980
Unrestricted	1,597,477	1,044,693
Total net assets	<u>1,354,997</u>	<u>2,302,372</u>
Total liabilities and net assets	<u>\$ 27,191,434</u>	<u>28,172,884</u>

See notes to financial statements

Ringgold County Hospital

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 13,976,877	13,000,940
Provision for bad debt	<u>(538,770)</u>	<u>(575,405)</u>
Net patient service revenue	13,438,107	12,425,535
Other operating revenue	<u>406,591</u>	<u>245,911</u>
Total operating revenue	<u>13,844,698</u>	<u>12,671,446</u>
EXPENSES:		
Salaries	5,815,673	5,797,437
Employee benefits	1,467,222	1,570,475
Professional fees and purchased services	2,393,167	2,522,779
Supplies and other	2,238,979	2,104,344
Repairs and maintenance	342,593	351,806
Utilities	332,304	314,990
Insurance	176,084	156,498
Depreciation and amortization	1,778,336	1,800,879
Interest expense	<u>1,280,852</u>	<u>558,452</u>
Total operating expenses	<u>15,825,210</u>	<u>15,177,660</u>
OPERATING LOSS	<u>(1,980,512)</u>	<u>(2,506,214)</u>
NONOPERATING REVENUE:		
County tax revenues	951,863	953,097
Investment income	39,362	133,231
Noncapital gifts	18,129	35,305
Rental income	<u>23,783</u>	<u>16,663</u>
Nonoperating revenue	<u>1,033,137</u>	<u>1,138,296</u>
DECREASE IN NET ASSETS	(947,375)	(1,367,918)
NET ASSETS, Beginning of year	<u>2,302,372</u>	<u>3,670,290</u>
NET ASSETS, End of year	<u>\$ 1,354,997</u>	<u>2,302,372</u>

See notes to financial statements

Ringgold County Hospital

Statements of Cash Flows For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 13,120,588	12,217,478
Cash paid to employee salaries and benefits	(7,383,920)	(7,392,412)
Cash paid to suppliers and contractors	(5,399,656)	(5,476,592)
Other receipts and payments, net	391,725	245,911
Net cash provided by (used in) operating activities	728,738	(405,615)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	18,129	35,305
County tax receipts	955,752	962,071
Net cash provided by noncapital financing activities	973,881	997,376
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Rental income	23,783	16,663
Principal payments on long-term debt	(8,795,834)	(177,842)
Proceeds from issuance of long-term debt	8,700,000	--
Interest paid on long-term debt	(1,290,376)	(595,617)
Purchase of property and equipment	(48,859)	(11,157,401)
Bond issuance costs	(139,820)	--
Net cash used in capital and related financing activities	(1,551,106)	(11,914,197)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	39,362	133,231
Change in investments and assets limited as to use or restricted, net	(16,878)	11,286,823
Net cash provided by investing activities	22,484	11,420,054
NET INCREASE IN CASH AND CASH EQUIVALENTS	173,997	97,618
CASH AND CASH EQUIVALENTS, Beginning of year	437,498	339,880
CASH AND CASH EQUIVALENTS, End of year	\$ 611,495	437,498

See notes to financial statements

Ringgold County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (1,980,512)	(2,506,214)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,778,336	1,800,879
Gain on sale of capital asset	(14,866)	--
Interest expense included in operating expenses	1,280,852	558,452
(Increase) decrease in current assets -		
Receivables -		
Patients	(108,526)	(61,557)
Other	196	16,763
Inventories	(9,040)	12,707
Prepaid expenses	(12,379)	(15,359)
Estimated third-party payor settlements	(204,493)	--
Increase (decrease) in current liabilities -		
Accounts payable	104,694	(40,286)
Accrued salaries, vacation and benefits payable	(101,025)	(24,500)
Estimated third-party payor settlements	(4,500)	(146,500)
Net cash provided by (used in) operating activities	\$ <u>728,738</u>	<u>(405,615)</u>

See notes to financial statements

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Ringgold County Hospital (Hospital). These policies are in accordance with U.S. generally accepted accounting principles. The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa which is governed by a seven member board of trustees elected for terms of six years.

A. *Reporting Entity*

The Hospital is a Critical Access Hospital, operating with 16 acute-care beds. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Ringgold County area.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. *Basis of Presentation*

The balance sheets display the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

Restricted net assets – This component of net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activities, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use under debt agreements.

G. Patient Receivables, Net

Net patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

H. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

I. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

J. Assets Limited as to Use or Restricted

Assets limited as to use or restricted include assets held by trustees under indenture agreements. These funds are reserve funds held as security for the Series 2008A, 2008B and 2010 bonds. These funds are used for the payment of principal and interest on the Series 2008A, 2008B and 2010 bonds when insufficient funds are available in the sinking fund. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheet at June 30, 2011 and 2010.

K. Investments

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income.

L. Capital Assets

Capital asset acquisitions are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital leases are depreciated over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	15 to 20 years
Buildings and building improvements	20 to 40 years
Equipment	4 to 10 years

The Hospital's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized. The capital assets associated with the Hospital's old facility were considered for impairment. Although the capital assets related to the old facility were not considered impaired, the capital assets remaining

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

estimated useful lives and salvage values were reconsidered. Upon reconsideration, the capital assets of the old facility were determined to have a useful life through the end of the construction period and no salvage value due to the Hospital's plans not to use the old facility upon completion of the construction of the new hospital facility. Additional depreciation of \$700,328 was recognized for the old facility capital assets for the year ended June 30, 2010.

M. Deferred Financing Costs

Deferred financing costs related to the issuance of the long-term debt are being amortized over the life of the related debt under the bonds outstanding method. Amortization expense of \$65,588 and \$56,070 for 2011 and 2010, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net assets.

N. Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

O. Group Health Insurance Costs

The Hospital is self-insured under its employee group health program, up to certain limits. Included in the accompanying statements of revenue, expenses, and change in net assets is a provision for premiums for excess coverage and payments for claims including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year-end.

P. Income Taxes

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Ringgold, Iowa. As such, the Hospital is exempt from paying income taxes. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Q. Fair Value of Financial Instruments

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use or restricted, accounts receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

R. Statement of Revenues, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included in nonoperating revenue and peripheral or incidental transactions are reported as nonoperating revenue and expenses.

S. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

T. Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

U. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

V. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

W. Management

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Mercy Medical Center-Des Moines. Administration and support services fees of \$383,671 and \$367,653 were incurred for the years ended June 30, 2011 and 2010, respectively.

X. Reclassification

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 reporting format.

Y. Subsequent Events

The Hospital considered events occurring through October 17, 2011 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Cash, Investments and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital's investments at June 30, 2011 and 2010 consisted of money market mutual funds and U.S. government obligations as follows:

		2011			
		Maturities in Years			
Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Money Market Mutual Funds	\$ 600,660	600,660	--	--	--
U.S. Government Obligations	889,245	145,285	428,524	315,436	--
	<u>\$ 1,489,905</u>	<u>745,945</u>	<u>428,524</u>	<u>315,436</u>	<u>--</u>
		2010			
		Maturities in Years			
Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
Money Market Mutual Funds	\$ 579,730	579,730	--	--	--
U.S. Government Obligations	893,297	--	312,094	581,203	--
	<u>\$ 1,473,027</u>	<u>579,730</u>	<u>312,094</u>	<u>581,203</u>	<u>--</u>

The Hospital manages the following risks in accordance with their formal investment policy:

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2011 and 2010, the Hospital's investments in U.S. Government obligations not directly guaranteed by the U.S. government were rated AAA by Standards & Poor's and its investments in money market mutual funds were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Interest Rate Risk: The Hospital's investment policy does not limit investments on interest rate risk. The Hospital complies with State of Iowa statutes in regards to interest rate risk.

Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy does not address how investments are to be held.

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

The composition of investments and assets limited as to use or restricted as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Short-term investments, Certificates of deposit	\$ <u>270,000</u>	<u>270,000</u>
Assets limited as to use or restricted:		
By bond agreements –		
Cash and cash equivalents	--	583,755
U.S. government agency obligations	825,000	837,189
Government money market funds	<u>664,905</u>	<u>52,084</u>
 Total assets limited as to use or restricted	 1,489,905	 1,473,027
 Less amounts required to meet current obligations	 <u>411,227</u>	 <u>287,562</u>
 Long-term portion	 \$ <u>1,078,678</u>	 <u>1,185,465</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 36,370	86,543
Change in unrealized gains and losses, net	<u>2,992</u>	<u>46,688</u>
 Total investment return	 \$ <u>39,362</u>	 <u>133,231</u>

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2009.

Medicaid – Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

The following illustrates the Hospital's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue:		
Inpatient services	\$ 3,479,995	3,575,028
Outpatient	12,212,791	12,228,177
Swing bed	428,155	537,935
Dialysis	703,909	973,841
Clinic	3,308,273	3,313,053
	<u>20,133,123</u>	<u>20,628,034</u>
Deductions from patient service revenue:		
Medicare	3,754,235	5,034,617
Medicaid	641,095	637,922
Other payors	1,719,020	1,884,407
Charity care	41,896	70,148
	<u>6,156,246</u>	<u>7,627,094</u>
Total deductions from patient service revenue		
	<u>6,156,246</u>	<u>7,627,094</u>
Net patient service revenue before provision for bad debt	\$ <u>13,976,877</u>	<u>13,000,940</u>

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 57% and 5%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2011 compared to 56% for Medicare and 5% for Medicaid in 2010. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Patient accounts	\$ 3,081,775	3,126,249
Less estimated third-party contractual adjustments	(641,000)	(922,000)
Less allowance for doubtful accounts	(900,000)	(772,000)
	<u>\$ 1,540,775</u>	<u>1,432,249</u>

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

The Hospital is located in Mount Ayr, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	26%	36%
Medicaid	4	6
Commercial	31	25
Private pay	39	33
	<u>100%</u>	<u>100%</u>

(5) Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010 were as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2011</u>
Capital assets, not being depreciated,				
Land	\$ 368,364	--	--	368,364
Capital assets, being depreciated:				
Land improvements	1,360,466	--	--	1,360,466
Hospital buildings	9,468,113	--	--	9,468,113
Fixed equipment	7,769,077	--	--	7,769,077
Major moveable equipment	5,545,316	65,402	(6,284)	5,604,434
Total capital assets, being depreciated	<u>24,142,972</u>	<u>65,402</u>	<u>(6,284)</u>	<u>24,202,090</u>
Less accumulated depreciation:				
Land improvements	44,631	89,262	--	133,893
Hospital buildings	259,417	519,123	--	778,540
Fixed equipment	344,564	455,640	--	800,204
Major moveable equipment	1,422,834	648,722	(4,607)	2,066,949
Total accumulated depreciation	<u>2,071,446</u>	<u>1,712,747</u>	<u>(4,607)</u>	<u>3,779,586</u>
Total capital assets, being depreciated, net	<u>22,071,526</u>	<u>(1,647,345)</u>	<u>(1,677)</u>	<u>20,422,504</u>
Total capital assets, net	<u>\$ 22,439,890</u>	<u>(1,647,345)</u>	<u>(1,677)</u>	<u>20,790,868</u>

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 368,364	--	--	368,364
Construction in progress	13,712,162	6,562,540	(20,274,702)	--
Total capital assets, not being depreciated	14,080,526	6,562,540	(20,274,702)	368,364
Capital assets, being depreciated:				
Land improvements	304,625	50,251	1,005,590	1,360,466
Hospital buildings	2,724,418	116,074	6,627,621	9,468,113
Fixed equipment	1,635,330	264,536	5,869,211	7,769,077
Major moveable equipment	2,491,128	1,646,388	1,407,800	5,545,316
Total capital assets, being depreciated	7,155,501	2,077,249	14,910,222	24,142,972
Less accumulated depreciation:				
Land improvements	230,473	51,152	(236,994)	44,631
Hospital buildings	2,245,650	300,848	(2,287,081)	259,417
Fixed equipment	1,383,921	267,610	(1,306,967)	344,564
Major moveable equipment	1,831,220	424,870	(833,256)	1,422,834
Total accumulated depreciation	5,691,264	1,044,480	(4,664,298)	2,071,446
Total capital assets, being depreciated, net	1,464,237	1,032,769	19,574,520	22,071,526
Total capital assets, net	\$ 15,544,763	7,595,309	(700,182)	22,439,890

Beginning in October 2008, the Hospital began a replacement hospital project (the Project), which consisted of constructing a 61,000 square foot hospital facility. The Project was constructed on a site, which had been acquired in the northern portion of Mount Ayr, Iowa. The Project was completed in December 2009.

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2011 and 2010 consisted of the following:

	June 30, 2010	Borrowings	Payments	June 30, 2011	Due Within One Year
Lease purchase agreements (C)	\$ 19,131	--	19,131	--	--
Hospital Revenue Bond, Series 2008A (D)	13,030,000	--	--	13,030,000	150,000
Hospital Revenue Bond, Series 2008B (E)	1,450,000	--	--	1,450,000	10,000
Hospital Revenue Bond, Series 2009 (G)	8,713,021	--	8,713,021	--	--
Hospital Revenue Bond, Series 2010 (H)	--	8,700,000	63,682	8,636,318	98,552
	\$ 23,212,152	8,700,000	8,795,834	23,116,318	258,552

	June 30, 2009	Borrowings	Payments	June 30, 2010	Due Within One Year
Revenue capital loan notes (A)	\$ 51,796	--	51,796	--	--
Notes payable (B)	87,141	--	87,141	--	--
Lease purchase agreements (C)	58,036	--	38,905	19,131	19,131
Hospital Revenue Bond, Series 2008A (D)	13,030,000	--	--	13,030,000	--
Hospital Revenue Bond, Series 2008B (E)	1,450,000	--	--	1,450,000	--
Hospital Revenue Bond, Series 2008C (F)	8,700,000	--	8,700,000	--	--
Hospital Revenue Bond, Series 2009 (G)	--	8,739,063	26,042	8,713,021	76,369
	\$ 23,376,973	8,739,063	8,903,884	23,212,152	95,500

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

- (A) The revenue capital loan notes consisted of Hospital Revenue Capital Loan Notes, Series 1999, in the original amount of \$700,000 dated August 1, 1999, which bore interest at 5.25%, paid in full during 2010.
- (B) Promissory notes payable, 0% to 6%, paid in full during 2010.
- (C) The Hospital was obligated under lease purchase agreements for equipment, due in monthly installments, including interest of 5.25% to 6.85%, paid in full during 2011.
- (D) Series 2008A Hospital Revenue Bonds; issued in the original amount of \$13,030,000, maturing serially at varying amounts through 2038, semiannual interest payments at 6.70%; collateralized by the Hospital's net revenue. The USDA-RD has issued to ArborOne ACA (the Servicer) a conditional commitment for guarantee, whereby, subject to certain conditions, to guarantee payment of principal and interest on the Series 2008A Bonds.
- (E) Series 2008B Hospital Revenue Bonds; issued in the original amount of \$1,450,000, maturing serially at varying amounts through 2038, semiannual interest payments at 10.12%; collateralized by the Hospital's net revenue.
- (F) Series 2008C Hospital Revenue Bond Anticipation Notes; issued in the original amount of \$8,700,000, with semiannual interest payments at 4.625%, refinanced in 2010 with proceeds from (G).
- (G) Refinancing of Series 2008C Hospital Revenue Bond Anticipation Notes with the Hospital Revenue Bonds Series 2009, issued in the original amount of \$8,700,000, with semiannual interest payments at 1.50%, matured in 2011 and refinanced with proceeds from (H).
- (H) In October 2010, the Hospital refinanced the Hospital Revenue Bonds Series 2009 and acquired permanent financing through the USDA Rural Development with Hospital Revenue Bonds, Series 2010 at 3.75%. Monthly principal and interest payments at \$35,061 are due commencing November 1, 2010 through October 1, 2050.

In conjunction with the issuance of the Hospital Revenue Bonds, the Hospital has agreed to comply with certain covenants as described in the bond indentures which places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

In addition, the Hospital is required to make monthly payments of \$3,506 into a debt service reserve account for ten years.

A summary of the Hospital's future principal and interest payments as of June 30, 2011 is as follows:

Year	Principal	Interest	Total
2012	\$ 258,552	1,336,399	1,594,951
2013	272,312	1,321,242	1,593,554
2014	286,216	1,305,271	1,591,487
2015	305,268	1,288,315	1,593,583
2016	324,475	1,270,113	1,594,588
2017-2021	1,951,314	5,737,960	7,689,274
2022-2026	2,673,346	5,344,996	8,018,343
2027-2031	3,572,561	4,397,924	7,970,485
2032-2036	4,794,554	3,104,093	7,898,648
2037-2041	5,401,075	1,273,270	6,674,345
2042-2046	1,635,260	468,400	2,103,660
2047-2051	1,641,384	136,161	1,777,545
	<u>\$ 23,116,318</u>	<u>26,984,143</u>	<u>50,100,461</u>

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

A summary of interest expense and investment income on borrowed funds during the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Interest cost:		
Capitalized	\$ --	873,010
Expensed	1,280,852	558,451
	<u>1,280,852</u>	<u>1,408,507</u>
Investment income		
Capitalized	<u>\$ --</u>	<u>22,954</u>

Subsequent to year end, the Hospital entered into a 60 month loan agreement for \$1,595,075. The loan was entered for the purpose of paying the costs of acquiring a Hospital Information System necessary to meet the adoption of meaningful use health information technology and qualified electronic health records under the Medicare and Medicaid programs.

(7) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

(8) Pension Plan

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. IPERS provides retirement and death benefits, which are established by state statute, to plan members and their beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% and 4.30% of their annual covered salary and the Hospital is required to contribute 6.95% and 6.65% of annual covered payroll for 2011 and 2010, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009, were \$379,318, \$372,702 and \$309,705, respectively, which equaled the required contributions for each year.

Ringgold County Hospital

Notes to Financial Statements June 30, 2011 and 2010

(9) Self-Funded Health Insurance

The Hospital has established a self-funded employee health insurance fund. All employees' payroll withholdings for health insurance and the Hospital's contributions are deposited into a separate benefit account. Under the self-insured plan, the Hospital pays claims from this fund, up to certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Hospital incurred health insurance expenses of \$680,809 and \$722,787 as of June 30, 2011 and 2010, respectively.

(10) Commitments and Contingencies

Commitments

The Hospital leases certain equipment under various three to five year noncancellable operating leases. The rental expense for the operating leases was \$301,452 and \$297,243 for the years ended June 30, 2011 and 2010, respectfully. The following is a schedule by year of future minimum rental payments required under noncancellable operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2011:

2012	\$ 301,452
2013	301,452
2014	43,982
2015	<u>14,124</u>
	<u>\$ 661,010</u>

Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Hospital's future financial position or results from operations.

(11) Risks and Uncertainties

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Ringgold County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets – Budget and Actual (Accrual Basis) June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2011, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 951,863	3,889	955,752	930,293	25,459
Add: Other revenues / receipts	13,925,972	(332,385)	13,593,587	15,061,320	(1,467,733)
Less: Expenses / disbursements	<u>15,825,210</u>	<u>(1,449,868)</u>	<u>14,375,342</u>	<u>16,511,151</u>	<u>2,135,809</u>
Net	(947,375)	1,121,372	173,997	(519,538)	<u>693,535</u>
Balance beginning of year	<u>2,302,372</u>	<u>(1,864,874)</u>	<u>437,498</u>	<u>3,628,341</u>	
Balance end of year	<u>\$ 1,354,997</u>	<u>(743,502)</u>	<u>611,495</u>	<u>3,108,803</u>	

Patient Service Revenue
For the Years Ended June 30, 2011 and 2010

	2011			2010		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
DAILY PATIENT SERVICES:						
Medical and surgical	\$ 755,582	--	755,582	700,747	--	700,747
Swing bed	98,951	--	98,951	97,635	--	97,635
	<u>854,533</u>	<u>--</u>	<u>854,533</u>	<u>798,382</u>	<u>--</u>	<u>798,382</u>
NURSING SERVICES:						
Operating room	210,146	911,871	1,122,017	220,464	1,119,036	1,339,500
Recovery room	17,264	199,412	216,676	18,360	240,690	259,050
Central Services	1,034,787	216,627	1,251,414	1,075,976	283,827	1,359,803
Intravenous therapy	95,642	132,828	228,470	114,916	147,478	262,394
Emergency	21,868	858,776	880,644	20,366	880,083	900,449
CRNA	70,332	290,066	360,398	21,379	80,151	101,530
	<u>1,450,039</u>	<u>2,609,580</u>	<u>4,059,619</u>	<u>1,471,461</u>	<u>2,751,265</u>	<u>4,222,726</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	343,261	2,500,117	2,843,378	365,846	2,292,418	2,658,264
Transfusion service	22,062	65,691	87,753	32,340	36,598	68,938
Cardiology	16,895	221,247	238,142	19,000	209,980	228,980
Radiology	280,788	3,138,194	3,418,982	296,017	3,160,679	3,456,696
Pharmacy	515,671	1,154,010	1,669,681	626,681	1,101,013	1,727,694
Respiratory therapy	229,772	244,369	474,141	238,109	272,336	510,445
Physical, occupational, and speech therapy	125,257	593,587	718,844	166,960	619,550	786,510
Anesthesiology	870	11,440	12,310	1,325	17,442	18,767
Ambulance service	5,693	437,265	442,958	19,687	410,157	429,844
Dialysis	--	703,909	703,909	--	973,841	973,841
Emergency room physicians	--	480,575	480,575	--	490,553	490,553
Clinic	210,996	3,917,301	4,128,297	227,769	4,028,625	4,256,394
	<u>1,751,265</u>	<u>13,467,705</u>	<u>15,218,970</u>	<u>1,993,734</u>	<u>13,613,192</u>	<u>15,606,926</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>4,055,837</u>	<u>16,077,285</u>	<u>20,133,122</u>	<u>4,263,577</u>	<u>16,364,457</u>	<u>20,628,034</u>
LESS:						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(6,114,349)			(7,556,946)
Charity care services and other discounts, based on charges forgone			(41,896)			(70,148)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			13,976,877			13,000,940
PROVISION FOR BAD DEBT			(538,770)			(575,405)
NET PATIENT SERVICE REVENUE			<u>13,438,107</u>			<u>12,425,535</u>

Other Operating Revenue
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Grant revenue	\$ 43,339	123,618
Meals sold to employees and guests	33,192	33,552
Contract laundry services	870	813
Gain on sale of capital assets	14,866	--
Insurance proceeds, old building	209,000	--
Other	<u>105,324</u>	<u>87,928</u>
	<u>\$ 406,591</u>	<u>245,911</u>

Departmental Expenses
For the Years Ended June 30, 2011 and 2010

	2011			2010		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Nursing Administration	\$ 80,778	152,905	233,683	85,333	133,389	218,722
Medical and surgical	817,939	61,491	879,430	808,314	84,896	893,210
Operating room	322,671	543,017	865,688	363,187	651,926	1,015,113
Central services and supply	58,138	3,166	61,304	57,876	10,542	68,418
Emergency services	70,709	14,483	85,192	53,641	23,410	77,051
	<u>1,350,235</u>	<u>775,062</u>	<u>2,125,297</u>	<u>1,368,351</u>	<u>904,163</u>	<u>2,272,514</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	284,946	399,715	684,661	257,202	383,812	641,014
Transfusion service	--	46,557	46,557	--	48,298	48,298
Cardiology	13,993	10,960	24,953	11,838	9,353	21,191
Radiology	216,776	879,289	1,096,065	220,737	864,933	1,085,670
Pharmacy	146,193	406,878	553,071	140,573	367,200	507,773
Respiratory therapy	117,908	74,643	192,551	121,806	101,674	223,480
Physical, occupational, and speech therapy	198,293	74,215	272,508	203,351	110,267	313,618
Medical records	133,572	48,805	182,377	149,566	43,446	193,012
Ambulance service	221,617	31,671	253,288	210,956	37,711	248,667
Dialysis	182,926	186,362	369,288	201,763	247,160	448,923
Clinics	1,916,499	564,143	2,480,642	1,871,446	486,088	2,357,534
Anesthesiology	--	219,718	219,718	--	70,640	70,640
Emergency room physicians	160,389	128,693	289,082	171,821	102,960	274,781
Physician private offices	16,026	9,768	25,794	16,618	9,075	25,693
	<u>3,609,138</u>	<u>3,081,417</u>	<u>6,690,555</u>	<u>3,577,677</u>	<u>2,882,617</u>	<u>6,460,294</u>
GENERAL SERVICES:						
Dietary	163,973	75,581	239,554	159,540	77,503	237,043
Plant operation and maintenance	159,624	459,093	618,717	180,691	422,255	602,946
Housekeeping	100,897	21,042	121,939	103,466	40,464	143,930
Laundry	18,178	15,996	34,174	13,720	14,490	28,210
	<u>442,672</u>	<u>571,712</u>	<u>1,014,384</u>	<u>457,417</u>	<u>554,712</u>	<u>1,012,129</u>
ADMINISTRATIVE AND FISCAL SERVICES						
Administrative	413,628	1,054,936	1,468,564	393,992	1,108,925	1,502,917
Employee benefits	--	1,467,222	1,467,222	--	1,570,475	1,570,475
	<u>413,628</u>	<u>2,522,158</u>	<u>2,935,786</u>	<u>393,992</u>	<u>2,679,400</u>	<u>3,073,392</u>
NONDEPARTMENTAL:						
Depreciation and Amortization	--	1,778,336	1,778,336	--	1,800,879	1,800,879
Interest	--	1,280,852	1,280,852	--	558,452	558,452
	<u>--</u>	<u>3,059,188</u>	<u>3,059,188</u>	<u>--</u>	<u>2,359,331</u>	<u>2,359,331</u>
TOTAL EXPENSES	<u>\$ 5,815,673</u>	<u>10,009,537</u>	<u>15,825,210</u>	<u>5,797,437</u>	<u>9,380,223</u>	<u>15,177,660</u>

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2011 and 2010

ANALYSIS OF AGING:

Age of Accounts	2011		2010	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,510,890	49.02 %	1,587,546	50.78 %
31 - 60	344,207	11.17	382,107	12.21
61 - 90	232,567	7.55	220,500	7.05
91 - 120	126,706	4.11	162,414	5.20
121 and over	867,405	28.15	773,682	24.75
	<u>3,081,775</u>	<u>100.00 %</u>	<u>3,126,249</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(900,000)		(772,000)	
Allowance for contractual adjustments	<u>(641,000)</u>		<u>(922,000)</u>	
	<u>\$ 1,540,775</u>		<u>1,432,249</u>	

	2011	2010
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 772,000	653,000
Provision of uncollectible accounts	538,770	575,405
Accounts written off	<u>(410,770)</u>	<u>(456,405)</u>
Balance, end of year	<u>\$ 900,000</u>	<u>772,000</u>

Inventory/Prepaid Expenses
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
SUPPLIES:		
Medical supplies	59,751	55,734
Pharmacy	<u>115,047</u>	<u>110,024</u>
	\$ <u><u>174,798</u></u>	<u><u>165,758</u></u>
 PREPAID EXPENSES:		
Insurance	\$ 40,346	35,084
Maintenance contracts	<u>39,051</u>	<u>31,935</u>
	\$ <u><u>79,397</u></u>	<u><u>67,019</u></u>

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
Ringgold County Hospital
Mount Ayr, Iowa:

We have audited the financial statements of Ringgold County Hospital (Hospital) as of and for the year ended June 30, 2011, and have issued our report thereon, dated October 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance that the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Hospital and other parties to who the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

SEIM JOHNSON, LLP.

Omaha, Nebraska,
October 17, 2011.

Ringgold County Hospital

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-11

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-11

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2011.

III-B-11

Certified Budget: Hospital disbursements during the year ended June 30, 2011 did not exceed amounts budgeted

III-C-11

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-11

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-E-11

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-11

Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-11

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

Ringgold County Hospital

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2011

III-H-11

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Ringgold County Hospital

Audit Staff
For the Year Ended June 30, 2011

This audit was performed by:

Marty J. Dubas, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Morgan L. Meyer, Staff Auditor